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SUPREME COURT OF THE UNITED STATES

BRIEF AND ARGUMENT OF APPELLANT

E. M. PENICK

JACKNER, BUTZ & MILLER

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IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1902.

No. 440.

AMERICAN COLORTYPE COMPANY, *Appellant*, vs. CONTINENTAL COLORTYPE COMPANY, WILLIAM J. MAAS, BAXTER J. FIERLEIN, HENRY FREESE, HENRY E. SCHULTZ, O. H. QUETSCH, and J. O. M. SEIBERT, *Appellees.*	Appeal from the Circuit Court of the United States for the Northern District of Illinois, Northern Division.

STATEMENT OF THE CASE.

This is an appeal from an order of the Circuit Court of the United States for the Northern District of Illinois, dismissing for want of jurisdiction a bill of complaint filed by the appellant against the appellees.

The bill of complaint asked for an injunction against the appellees restraining a part of them from engaging in the business of making and selling colortype plates or three-color plates and printing and selling pictures made therefrom and restraining the others from using in any such business any information relating thereto and obtained from the defendants who were formerly in appellant's employ. A motion for a preliminary restraining order was made by

complainant and argued before the Circuit Court. Upon the argument the defendants filed a demurrer, and the court, having heard arguments upon both sides of the controversy, denied the motion for a temporary restraining order, sustained the demurrer to the bill of complaint and dismissed the suit for want of jurisdiction. From this order dismissing the suit at complainant's costs, for want of jurisdiction, the complainant appeals and assigns as error the action of the court sustaining the demurrer of the defendants to the bill of complaint and dismissing the suit.

The verified bill of complaint is shown upon pages 3 to 25 of the record, and shows the following facts:

The complainant, American Colortype Company, is a New Jersey corporation, organized about March 1, 1902. It is the result of a consolidation of three other corporations, two of which were organized under the laws of Illinois, and were engaged in the manufacture of colortype or three-color plates, and in printing and selling pictures made therefrom, and the third, a corporation organized under the laws of New Jersey, engaged in the manufacture and sale of calendar backs. The two Illinois corporations were the National Colortype Company and the American Three-color Company, both doing business and having their principal offices in Chicago. The New Jersey corporation was the Osborne Company.

This three-color process, or colortype process, is a process whereby exact reproductions of paintings are by skillful manipulation produced by means of three-color plates.

The pictures are made by successively impressing three plates upon exactly the same surface, each of said plates applying to the surface, in varying intensities, one of the three primary colors, by a combination of which all other colors are produced. These

three plates are each made by photographing the original painting through a liquid screen, which absorbs all the rays except those of the one primary color which the particular plate to be made from this negative is to print. From the negative thus produced is made a plate which will print one of the three primary colors with such varying intensity that when combined with certain proportions of the other two primary colors, will give each color and shade appearing upon the original painting. The other two primary colors, in their proper intensities, are furnished by the other two plates. (For the information of the court the process is described above with somewhat more of detail than in the bill.)

While the above facts and sufficient details of the process to permit the production of indifferently executed three-color pictures is known to all those who have cared to make a study of the subject, yet the successful and accurate reproduction of paintings so as to approximate, and in many instances actually accomplish, the perfection of the beauty of the original, requires not only great skill in conducting each separate step of the process, but it also requires the knowledge of secret means of handling the materials, machinery and equipments. (Rec., 13.) These secrets were discovered partly by the officers and employes of the complainant since its organization, and partly by the officers and employes of the complainant's constituent companies, prior to the organization of the complainant. (Rec., 8 to 10.) There are few concerns aside from the complainant which are producing pictures by this process; but that product is confined principally to a cheaper class of work, and they are not, nor is any one of them capable, of producing work of the high degree of perfection attained by the complainant, whose predecessors were pioneers in the business. (Rec., 13.)

The knowledge possessed by the complainant's officers and employes, of these secret methods of conducting the several steps in this process, and a knowledge of certain machinery and appliances, the use of which has been known only to them, and their skill in manipulating the same, have constituted an important and very valuable asset of the complainant, and of its constituent companies. (Rec., 13.) Such has been the value placed upon these secrets by the complainant and its predecessors, that they have uniformly taken unto their employ for the purpose of conducting the several steps in the production of three-color plates, only such persons as would agree to remain in the employ of complainant and its predecessors, for a term of years, and further agree not to divulge the aforesaid secrets and not to work for or become connected with, or in any manner, aid or assist any other person, firm or corporation, engaged in a similar business. (Rec., 13.)

In November, 1901, about two and one-half months before the making of the agreement by complainant's three constituent companies to consolidate their business, and about three months before the actual consummation of the project, the defendants Maas and Fierlein, who up to that time had been engaged in Chicago in the business of producing three-color plates, sold out their business to the National Colortype Company, one of complainant's constituent companies, for the sum of eighty-four hundred dollars, which was paid partly in cash and partly in notes. As a part of the same agreement Maas entered into a contract of employment with said National Colortype Company for the term of five years from December 1, 1901; and Fierlein the other partner entered into a contract of employment for two years from the same date, with another of complainant's constituent companies, the American Three-color

Company of Chicago, who for the purpose of procuring Fierlein's services, furnished a portion of the $8,400 which the National Colortype Company paid Maas and Fierlein for their business. (Rec., 4–6.)

The above transaction was evidenced by three written contracts: one a bill of sale from Maas and Fierlein to the National Colortype Company, another the five year contract of service between Maas and the National Colortype Company, and the third, a two years contract of service, between Fierlein and the American Three-color Company. (Rec., 19–23.)

The bill of sale recited that as a part of the purchase of the assets and business of Maas and Fierlein, Maas should enter into the five year contract with the National Colortype Company, and Fierlein should enter into the two year contract with the American Three-color Company.

The contract between Maas and the National Colortype Company was made on the same day, and provided that Maas should remain in the employ of said Company for five years, as superintendent of its plate making department, at the salary of fifty dollars per week, while his services should be required in Chicago, and $60 per week if he should be required to work in New York or elsewhere outside of Chicago; that Maas should give his whole time and attention to that business and faithfully discharge his duties under the reasonable rules and regulations of the said Company, and that he (Maas) would not, during that five years, accept employment in any capacity with any person or corporation engaged in the three-color printing business; and that Maas should not, for ten years after December 1, 1901, in any of the states or territories of the United States, east of the Rocky Mountains, be interested in, as owner, stockholder,

employer, employe or otherwise, in three-color printing business or other business doing a similar class of work to said Company, and that Maas should not during such period, divulge to any person, any secrets or processes relating to the business of three-color printing, of which he was then possessed, or which he might learn during his term of employment, and that he should not during that period teach such process to any person whomsoever; and the contract recited that it was a part of the consideration of the agreement of the purchase of the business of Maas and Fierlein, that Maas should comply with these conditions.

The third contract, between Fierlein and the American Three-color Company, recited that Fierlein should enter the employ of that company as a salesman at $50 per week, if required to work in Chicago, and $60 per week if required to work in New York. It further provided that the said Fierlein should devote his whole time and attention to the interests and business of the said American Three-color Company and should perform faithfully the duties of his employment, under the reasonable rules and regulations of the said company.

Fierlein had been the business manager and the manager of the sales department of the partnership consisting of himself and Maas, and, as such, was acquainted with the customers and was experienced in the means and methods for securing this particular class of work. Maas had been the practical operator of the plant and as such had attained a certain degree of skill and knowledge in the making of three-color plates. Upon the consummation of this deal Maas entered the works of the National Colortype Company and as speedily as practicable was instructed in the secret methods, processes and appliances of that company, which secrets he would never have secured but for the reliance of

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the company upon his supposed honesty. Fierlein at the same time assumed his duties as salesman for the American Three-color Company, and that company, in reliance upon his supposed trustworthiness, gave him free access, as it must have done, in order to avail itself of his services, to the lists of its customers and its estimates on three-color work for various prospective customers. These lists and estimates were kept secret by that company, and were of great value to it when so kept secret, as a means to the securing of extensive business. (Rec., 7–13.)

About February 15th following, after these two defendants had been in the employ of their new employers for about two and one-half months, an agreement was made by these two companies and the Osborne Company of New Jersey to consolidate their assets and business under the name of the American Colortype Company, and, pursuant to that agreement, the complainant corporation was formed and all the assets, including the above mentioned contracts, together with the good will of the three constituent companies, were transferred to the complainant corporation.

During the progress of this consolidation, the defendant Maas as well as the defendant Freese and Schultz, who will be hereinafter mentioned, were cognizant thereof and gave their full assent thereto. Not only did they, or either of them, fail to indicate any dissatisfaction with the new order of affairs, but they all, with full knowledge of these conditions, continued to occupy their respective positions with the consolidated company, just as they had with the constituent companies, doing the same work under the same conditions and drawing the same salaries, but these defendants, also, by positive acts recognized and accepted the complainant as their employer under their several contracts by virtue of which they had before been working,

and assented to the substitution of the complainant as their employer, and as a party to their several contracts, in lieu of the constituent companies for whom they had been working. (Rec., 8–10.)

The complainant, also, relying upon the supposed honesty of these defendants, and upon their announced intention of carrying out these contracts with the complainant as their employer, instructed the defendant Maas in secret methods, processes and manipulations, in addition to which he had before learned, and of which he had no knowledge when the complainant company was formed. Some of these secrets were obtained from the American Three-color Company, with which company Maas, before the consolidation, had no connection, and some were the result of new inventions, developed after the formation of the complainant company, doubtless as a result of the contact of minds which had theretofore been laboring in the same fields, but out of view of each other.

The defendant Fierlein was also intrusted by the consolidated company with full knowledge of its business secrets, its lists of customers and its estimates on three-color work. The secret information thus imparted to Fierlein was, of course, much more extensive than that obtained by him when working for one of the constituent companies, and was given to him in reliance upon his supposed faithfulness and upon his announced intention of abiding by his contract with the consolidated company as his employer. (Rec., 13.)

Maas and Fierlein continued apparently (but apparently only) to discharge their duties to the complainant for four and one-half months or until July 1st, last. They had been in the employ of complainant's constituent companies

but little more than half of that length of time. During those four and one-half months, Maas and Fierlein carefully preserved an outward appearance of faithfulness and loyalty to their employer. The secret history of their movements, however, discloses the fact that as early as the middle of May (how much earlier, if any, complainant does not know) Maas and Fierlein, aided by two outsiders, began a stealthy and systematic compaign to rob the complainant of valuable property rights entrusted to their care. With the co-operation of these outsiders, (the defendants Quetsch and Seibert), Maas and Fierlein conceived the plan of forming a new company to compete with the complainant in the making of three-color plates and printing pictures therefrom, and to fraudulently and surreptitously secure to that new company valuable property rights of the complainant, namely, the aforesaid trade and business secrets. Having formed that intention, for the purpose of successfully carrying it out Maas and Fierlein retained their positions with the complainants, and preserved the outward show of loyalty and honesty. Maas, cloaked with his authority as superintendent, began to intrigue with his subordinates to induce them to violate their contracts with the complainant wherein they were bound to serve the complainant for terms of years and to refrain from divulging the complainant's secrets. These insidious efforts were in a measure successful. Several of complainant's employes under written contracts such as above described, were induced by Maas and Fierlein to join the conspiracy. In the meantime Maas, as well as his underlings, whom he had seduced, proceeded to learn all they could of the new and secret methods for the carrying on of this work, put into use since the complainant's organization. Evidence, pertinent under the allegations of this

bill, will show also that Maas went outside of his own department and under the cover of his authority with which he had been clothed by the complainant, prevailed upon complainant's employes to impart to him, though with some misgivings, other secrets to which he had no right, even by virtue of his position.

Fierlein also employed the six weeks or more during which the conspiracy was carried on under complainant's roof, in copying complainant's list of customers and its estimates on three-color work, and in ingratiating himself so far as he could with complainant's customers.

These acts were not the result of a sudden temptation, but of a carefully matured conspiracy. They sought not only to deprive the complainant of practically the entire benefit of the $8,400 purchase of November, 1901, but also to filch from the complainant property rights much greater in value. This conspiracy was hatched, and all the acts pursuant thereto took place within the complainant's factory and while the defendants Maas and Fierlein, as well as the employes whom they seduced, were drawing their salaries from complainant. These defendants, while utilizing their time and unexampled opportunities to deal the complainant the most serious blow of which they were capable, did not hesitate to permit the complainant to reward them for their treachery.

Two of the employes who yielded to the temptation held before them by Maas and Fierlein were the defendants Freese and Schultz. Freese on December 1, 1900, had contracted with the National Colortype Company, who to preserve the good will of the purchased plant was then doing business under the name of the Chicago Colortype Company. Freese bound himself to work for the National Colortype

Company until May 1, 1903, in the plate etching department, his salary ranging from $18 per week at the beginning to $24 per week at the end. The company agreed to instruct him in its methods of etching. Freese agreed to discharge his duties during the above period "conscientiously and to the full extent of his ability;" and the contract recited that inasmuch as the successful prosecution of the business necessitated keeping secret the processes and practices of the business, Freese agreed never to divulge to any one the secrets, methods or practices of the company, and especially to keep the colortype process strictly secret and not to divulge any knowledge thereof, directly or indirectly to any person, or, during the contract, to enter the employ of any person engaged in the same or a similar business, or during that period to engage in any work except for said company, wherein he would be able to utilize the knowledge, acquired while working for the company. This contract further provided that inasmuch as any suit which might be brought against Freese to enjoin him from doing and of the acts that he had agreed not to do, would necessitate the disclosure of the secret processes of the company, which would be highly detrimental to its business, Freese agreed in advance, (in order to prevent such a necessity), that the mere fact of his going to work for any person, firm or corporation in a similar line of business to that of the complainant, should be considered a breach of his agreement, and might be enjoined. And the contract further recited that it was understood that the company would not divulge any of its secrets to Freese or allow him to gain any knowledge of its processes or practices were it not for the faithful promises of Freese, not to divulge the same.

Freese likewise remained with the consolidated company

for four and one-half months after the consolidation, on the understanding that the complainant company should be substituted as a party to the above contract, in lieu of the first employer, and during said four and one-half months was entrusted by the complainant with trade secrets of which he had no prior knowledge, which were of great value to the complainant, and which would not have been disclosed to Freese but for the reliance of the company upon his honesty, and his announced intention of continuing to abide by his contract. (Rec., 9–10.)

The other former employe who was induced to join the conspiracy, and who was made a party defendant was Henry E. Schultz. His contract of employment expired August 1, 1902. He was entrusted, however, by the complainant, since the consolidation, with secrets of the nature above described, because of the confidential relation in which he stood to the complainant, and in reliance upon the implied agreement as well recognized understanding, that he would not divulge those secrets. (Rec., 10.)

The defendants Quetsch and Seibert were formerly the officers of the corporation known as Seibert, Quetsch & Co., which company had prior to 1901, done printing for Maas and Fierlein. Neither they nor their corporation had ever produced or attempted to produce three-color plates. They had simply done, for Maas and Fierlein, the mechanical work of printing from such plates.

Seibert and Quetsch were a part of the conspiracy from the beginning, and fully cognizant of all its acts, and of their dishonest character. Quetsch and Seibert together with Maas and Fierlein, in the early part of July, 1902, caused the name of Seibert, Quetsch & Co. to be changed to the Continental Colortype Company, and all those

parties, namely, Quetsch, Seibert, Maas and Fierlein, became officers, directors and stockholders of the Continental Colortype Company. The latter company about the same time (early in July last) publicly announced its intention of engaging in the business of manufacturing three-color plates and printing therefrom, in competition with the complainant, by a circular letter sent to a large number, and probably all of complainant's customers, in which circular letter it was stated that Maas would have charge of the work of producing the colortype plates, and Fierlein would have charge of the sales department. (Rec., 10, 11, 25.)

Thereupon this bill was filed praying for an injunction against the defendants Maas, Fierlein, Freese and Schutlz from becoming or remaining connected with the Continental Colortype Company, and from disclosing to said company or the other defendants the trade or business secrets acquired by them while in the employ of the complainant or its constituent companies, or the secret methods for the production of three color plates, and asking an injunction against all the defendants from making use of any of those trade or business secrets.

Upon a motion being made for a preliminary restraining order the defendants jointly filed a demurrer denying that there was any equity in the complainant's bill and also challenging the jurisdiction of the court. Upon argument the court sustained the demurrer and dismissed the bill for want of jurisdiction, the opinion of the court being as follows. (Printed Rec., 30):

"Under the allegations and prayer of the bill in this case I am of the opinion that it falls within the prohibition contained in the act of August 13, 1888 (U. S. Stat. at large, 433), as construed by the Federal courts.

The motion for a preliminary injunction is denied and the

demurrer will be sustained to the bill for lack of jurisdiction."

In other words, the court held that this suit was brought solely to recover the contents of a chose in action by an assignee of the same when such suit might not have been prosecuted in that court to recover said contents if no assignment or transfer had been made.

Our answer to this position, as urged in the court below and repeated here, is as follows:

1. As to each of the contracts of employment made by the complainant's constituent companies with the defendants Maas, Fierlein, Freese and Schultz, the bill charges by apt words a novation occurring at the time of the organization of the complainant, and consisting of a substitution, by the consent of all parties to each contract, of the complainant company in lieu of its predecessor who entered into the contract. The complainant's case, therefore, rests not merely upon the assignment of the contracts with the defendants, but upon new agreements made directly with these defendants.

2. The bill charges that during the four and one-half months in which defendants Maas, Fierlein, Freese and Schultz pretended to serve the complainant, the latter permitted them, and each of them, to become acquainted with trade and business secrets of the complainant of which they had no knowledge before that time, and that these secrets were communicated to these defendants by virtue of their confidential relations to the complainant and in reliance upon the understanding that the secrecy of the same was to be preserved. As to these secrets so communicated by the complainant directly to the defendants last mentioned, we believe the complainant's right to relief

to be entirely clear, even in the absence of the allegations respecting a novation.

3. The Federal court clearly having jurisdiction to grant the relief asked as to the trade and business secrets communicated to the defendants since February, 1902, even in the absence of any novation, may adjudicate upon the other matters inseparably connected therewith, namely, the secrets communicated to or known by said defendants prior to said date, both those acquired by said defendants by virtue of their confidential positions with complainant's constituent companies, and those not so acquired, but which the defendants were bound to disclose to no one other than complainant; for the right of complainant to relief as to all these matters constitutes but a single cause of action.

By the refusal of the court below to grant the preliminary injunction, the complainant unquestionably lost certain valuable property rights which cannot be restored. By a timely reversal of that decree, however, there will be saved to the complainant the major portion of the rights sought by the bill to be preserved. The continued enjoyment by the defendant Continental Colortype Company of the fruits of its raid will depend very largely upon its ability to make use of the services of the complainant's former employes, and especially of their knowledge acquired since the consolidation of the three companies.

A sufficient reason for not filing this bill in our state court is the well recognized disposition of that court to declare invalid any contract or understanding in restraint of fraudulent competition.

Peck Bros. Co. v. *Peck*, 113 Fed., 300.

BRIEF.

I.

As to each of the contracts of employment made by the complainant's constituent companies with the defendants Maas, Fierlein, Freese and Schultz, the bill charges by apt words a novation occurring at the time of the organization of the complainant, and consisting of a substitution, by the consent of all parties to each contract, of the complainant company in lieu of its predecessor who entered into the contract. The complainant's case, therefore, rests not merely upon the assignment of the contracts with the defendants, but upon new agreements made directly with these defendants.

2nd. Ed. Encyclopedia of Law, Vol. 21, p. 660.
Chapin v. *Longworth*, 31 Ohio St., 423.
McKinney v. *Alvis*, 14 Ill., 33.

II.

A part, at least, of the secret information, the use of which is sought to be enjoined, was acquired by defendants Maas, Fierlein, Freese and Schultz by virtue of their confidential employment by complainant itself.

The bill charges that during the four and one-half months in which said defendants pretended to serve the complainant the latter permitted them, and each of them, to become acquainted with trade and business secrets of the complainant of which they had no knowledge before that time, and that these secrets were communicated to these de-

fendants by virtue of their confidential relations to the complainant and in reliance upon the understanding that the secrecy of the same was to be preserved. As to these secrets so communicated by the complainant directly to the defendants last mentioned, the complainant's right to relief is entirely clear, even in the absence of the allegations respecting a novation.

Harrison v. *Glucose S. F. Co.*, 116 Fed., 304.
Thum v. *Tloczynski*, 114 Mich., 149.
Eastman Kodak Co. v. *Reidenbach*, 79 Hun., 183.
Westervelt v, *Nat'l. Paper Co.*, 154 Ind., 673.
Little v. *Gallus*, 38 N. Y. Supp., 487.
Morrison v. *Moat*, 21 L. J. Ch., N. S.
1 High on Injunctions, Sec. 19.
1 Story's Eq. Jur., Sec. 323.
2 Story's Eq. Jur., Sec. 953.
Chadwick v. *Covell*, 151 Mass., 190.
Peabody v. *Norfolk*, 98 Mass., 452.
Salomon v. *Hertz*, 40 N. J. Eq., 400.
Yovatt v. *Wingard*, 1 Jul. & W., 394.
Hopkins on Unfair Trade, Sec. 67.

III.

The Federal court clearly having jurisdiction to grant the relief asked as to the trade and business secrets communicated to the defendants since February, 1902, even in the absence of any novation, may adjudicate upon the other matters inseparably connected therewith, namely: the secrets communicated to or known by said defendants prior to said date, both those acquired by said defendants by virtue of their confidential positions with complainant's constituent companies, and those not so acquired, but which the defendants were bound to disclose to no one other than complainant; for the right of complainant to relief as to all these matters constitutes but a single cause of action.

Evans v. *Durango Land & Imp. Co.*, 80 Fed., 433.

ARGUMENT.

First. As to each of the contracts of employment made by the complainant's constituent companies with the defendants Maas, Fierlein and Freese, the bill charges by apt words a novation occurring at the time of the organization of the complainant, and consisting of a substitution, by the consent of all parties to each contract of the complainant company in lieu of its predecessor, who entered into the contract. The complainant's case, therefore, rests not merely upon the assignment of the contracts with the defendants, but upon new agreements made directly with these defendants.

It was contended by the defendants below, and held by the Circuit Court that this suit was based solely upon an assignment to complainant of contracts made by the defendants Maas, Fierlein and Freese with the complainant's constituent companies, the National Colortype Company, and the American Three-color Company, both corporations of Illinois, who could not have maintained this suit in the Federal Court, and that therefore this suit must fail for lack of jurisdiction.

We contend that the bill rests not merely upon contracts assigned to the complainant but upon new contracts and relations formed by these defendants with the complainant direct at the time of its organization; that the bill alleges more than an assignment to the complainant of these contracts with the American Three-color Company and the National Colortype Company; that in addition thereto it alleges an agreement between the complainant and each of these former employes and the employer with whom his contract was made, to substitute the complainant in lieu

of the first employer as a party to the contract pleaded, thereby constituting a novation; that the relation of the complainant to each of the defendants, Maas, Fierlein and Freese, rests therefore, upon an agreement made directly between the complainant and each of said defendants and not merely upon an assigned contract.

As to defendant Maas, the bill alleges (Rec., 8), that he,

"Well knowing of said consolidation and said transfer, to the complainant of the business, assets and good will of the National Colortype Company, and well knowing of the transfer to the complainant of the said contracts herein designated as exhibits A and B, consented to said transfer, and announced his intention of holding the complainant upon said contracts, and remained in the employ of complainant in the same capacity that he was prior to March 1, 1902, employed by the National Colortype Company, namely: in the capacity of superintendent of plate making, and that he so remained in the employ of the complainant and accepted the salary stipulated in said contract, Exhibit B, and in all respects acquiesced in said contract, Exhibit B, and recognized the complainant as his employer thereunder, until on or about July 1, 1902."

And the further allegation is made that by the consent of all parties—Maas, National Colortype Company and complainant—the latter was

"*substituted as a party to said contract, Exhibit B, in place and in lieu of the National Colortype Company.*"

In the following paragraph (No. 12) of the bill, (Rec., 8–9), practically the same allegations are made respecting Fierlein, and it is stated that, by the consent of himself, American Three-color Company and complainant, the latter was

"substituted as a party to said contract, Exhibit C, in place and in lieu of the American Three-color Company."

In the next paragraph of the bill (Rec., 9–10), substantially the same allegations appear as to defendant Freese,

and in the last sentence of said paragraph it is stated that by the consent of Freese, National Colortype Company and complainant the latter was "substituted as the employer of said Freese and as a party to said contract with said Freese." (Exhibit D.)

"Novation is the substitution of one obligation for another, and takes place either **by the substitution of a new for an old party,** or by the substitution of a new agreement between the old parties, or, it may be, by a change both of parties and of agreement at the same time." 2nd Ed. Encyclopedia of Law, Vol. 21, p. 660.

In this bill not only is an express agreement to substitute the new for an old employer unequivocally alleged (and such substitution necessarily includes the release of the old employer), but facts are alleged from which, even in the absence of an express agreement to substitute, would show an implied agreement.

In the case of *Chapin* v. *Longworth*, 31 Ohio St., 423, the court said:

"If the petition contained an averment that Chapin (the employer) accepted Longworth (the assignee of the party whom he contracted to serve) as employer, and released the firm (meaning the party he contracted to serve), the contract would assume the character of a novation."

"In *McKinney* v. *Alvis*, 14 Ill. 33, the syllabus is as follows: Choses in action, except negotiable instruments, are not assignable at law so as to authorize the assignee to maintain an action in his own name; to maintain an action there must be communication and a new arrangement between all the parties by which the assignor's claims upon his debtor and his liability to the assignee are extinguished."

The decision in this case holds that where there is such novation, it becomes a new contract upon which the new and substituted party may sue just the same as if he had originally contracted.

In *Wiggins Ferry Co.* v. *O. & M. R. Co.*, 142 U. S., 396, this court said:

"It is not necessary that a party should deliberately agree to be bound by the terms of a contract to which he is a

the National Colortype Company, and well knowing of the transfer to the complainant of the said contracts herein designated as exhibits A and B, consented to said transfer, and announced his intention of holding the complainant upon said contracts, and remained in the employ of complainant in the same capacity that he was prior to March 1, 1902, employed by the National Colortype Company, namely: in the capacity of superintendent of plate making, and that he so remained in the employ of the complainant and accepted the salary stipulated in said contract, Exhibit B, and in all respects acquiesced in said contract, Exhibit B, and recognized the complainant as his employer thereunder, until on or about July 1, 1902."

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The decision in this case holds that where there is such novation, it becomes a new contract upon which the new and substituted party may sue just the same as if he had originally contracted.

In *Wiggins Ferry Co.* v. *O. & M. R. Co.*, 142 U. S., 396, this court said:

"It is not necessary that a party should deliberately agree to be bound by the terms of a contract to which he is a stranger, if, having knowledge of such contract, he deliberately enters into relations with one of the parties, which are only consistent with the adoption of such contract. If a person conducts himself in such manner as to lead the other party to believe that he has made a contract his own, and his acts are only explicable upon that theory, he will not be permitted afterwards to repudiate any of its obligations. 2 Pomeroy Eq. Jur., Sec. 965; *C. & A. R. Co.* v. *Chgo., U. & W. C. Co.*, 79 Ill., 121."

Under the facts alleged in this bill we submit that defendants are now estopped from denying their assent to the substitution of the new for the old employer under the contracts in question, and from denying that their services for the complainant were rendered under the said contract.

We respectfully submit that under the allegations of this bill these defendant's, former employes, stand in the same relation to the complainant as if they had originally contracted with it.

II.

A part, at least, of the secret information, the use of which is sought to be enjoined, was acquired by defendants Maas, Fierlein, Freese and Schultz by virtue of their confidential employment by complainant itself.

The bill charges that during the four and one-half months in which said defendants pretended to serve the complainant, the latter permitted them, and each of them, to become acquainted with trade and business secrets of the complainant, of which they had no knowledge before that time, and that these secrets were communicated to these defendants by virtue of their confidential relations to the complainant, and in reliance upon the understanding that the secrecy of the same was to be preserved. As to these secrets so communicated by the complainant directly to the defendants last mentioned, the complainant's right to relief is entirely clear, even in the absence of the allegations respecting a novation.

The facts recited in the bill disclose an abuse of trust which is peculiar for its flagrancy. To enable a party of four men, fellow employes of the same employer against whom they had no grievance, to deliberately and concertedly continue for months in his employ for the sole purpose of fitting themselves to make a successful raid upon his most valuable possessions—continuing meanwhile to draw liberal pay from the employer while so doing—requires a refinement of treachery not often encountered. Add to this

the fact that these defendants also made use of their rare opportunities, while so employed, to induce certain other trusted employes of complainant to commit like depredations, and we have (at least from complainant's point of view) a picture of calculating villainy rarely met with in purely business relations; where the sole temptation is hope of incerased income.

The defendants Maas, Freese and Schultz were, during their four and one-half months of service with the complainant, instructed in secret methods relating to the production of three-color plates. Defendant Fierlein, who became sales agent of the new company, was not so instructed, but, "by virtue of his said employment, necessarily had access to the complainant's list of customers and estimates on colortype work, which lists and estimates were of great value to complainant, and were kept secret by it" (Printed Record, p. 13. The name Fierlein is erroneously printed as "Freese," as will be shown by a reference to the record itself).

As to Maas the bill alleges (Rec., p. 8; par. 11): "and that since said consolidations said Maas has been instructed by complainant in secrets of great value in making color type plates."

As to defendant Freese, the same allegation appears in paragraph 13 of the bill. (Rec., p. 10).

Paragraph 14, (Rec., p. 10) contains the same allegation respecting defendant Schultz.

Reported cases bearing directly upon the rights of the parties under the facts disclosed are abundant; and the rules announced therein are peculiarly harmonious. The most striking feature of those cases, however, is the mildness of the offences denounced by the courts, when compared with the admitted acts of the defendants herein.

The most recent case bearing directly upon this point is the case of *Harrison* v. *Glucose Sugar Refining Co.* decided by the United States Court of Appeals for this (the 7th) Circuit in the month of May last, and reported in 116 Fed. Rep., at page 304.

In this case the defendant Harrison made a five year contract of service with the Glucose Sugar Refining Company. The contract provided that Harrison should devote all his time and attention to the business of the company and to the performance of such duties as might be assigned to him, and it further provided that Harrison should not during the term of service agreed upon become employed by any other person than the company, and that he should not during such term become connected with in any capacity the business (other than that of defendant's said company) of buying, manufacturing or selling glucose, grape sugar, starch or any kindred products within a radius of 1500 miles of the City of Chicago.

This contract contains not a word to the effect that Harrison should not disclose any secrets that might be communicated to him in the course of his employment, nor does it in any way mention the existence of any trade secret or secret process.

Before the end of the five year term Harrison entered the employ of the Illinois Sugar Refining Company, engaged in the same line of business with the Glucose Sugar Refining Company.

A bill was filed by the latter company to restrain him from remaining in the employ of the Illinois Sugar Refining Company, or any other company engaged in the same line of business, and from communicating or disclosing to the Illinois Sugar Refining Company or any of its officers or

agents any information, knowledge, trade secrets, methods or processes of any kind pertaining to the manufacture or sale of glucose or any kindred product. The bill alleged that while in the employ of the complainant Harrison had necessarily become acquainted with secret methods and processes employed by the complainant in the manufacture of glucose and kindred products. The Circuit Court entered an order enjoining the defendant as prayed in the bill. The court of appeals upheld the order of the court below notwithstanding the fact that nothing whatever was said in the written contract between the parties concerning any secret processes or trade secrets or the disclosure of the same. The decision was based mainly upon the ground that these trade secrets were communicated to Harrison in a confidential capacity. In the course of the opinion the court said:

"There is however, another consideration which as we think should prevail to hold this contract valid. The appellent was under his contract employed in a confidential capacity in a business which, notwithstanding the denial by the appellant, we cannot but believe from the evidence presented required many secret processes. * * * The record is replete with evidence, not necessary here to be set forth at large, to the effect that experts were constantly experimenting to discover processes by which every part of the product might be utilized at the minimum of expense, and that the experiments and the results obtained were communicated confidentially to the appellant. It also satisfactorily appears, notwithstanding his denial, that the appellant entered into the employment of a concern not at the time engaged in a rival business and forthwith superintended for them the construction of works for the manufacture of glucose and its kindred products with a view to competing with the appellee in such manufacture. Under the circumstances it would require something more than a mere denial to convince us that in the manufacture of glucose he would not employ the secrets of the business of the appellee which had been confidentially communicated to him. He could not well do otherwise. He was employed

by the rival for that purpose. He was to give all his skill, including the knowledge confidentially acquired in the business of appellee, to his new master. He could not in good faith serve the one without breach of duty to the other. In such a case it may well be doubted if the rule with respect to restraint of trade should apply, because these secrets of the business are the property of appellee to which the public has no right and may not justly insist that it shall receive the benefit of appellant's services through a breach of confidence. *Twist Drill & Mach. Co.* v. *Morse*, 103 Mass., 73; *Beale* v. *Chase*, 31 Mich., 491.

"In all such cases courts have uniformly enjoined the delinquent party from engaging in the business from which he has agreed to refrain **and from disclosing the secrets of the business which he has thus acquired.** Spelling on Injunctions, Vol. 1, Sec. 477; 1 Story's Eq., 323; 2 Story's Eq., 952; 1 High on Injunctions, Sec. 19; Hopkins, Unfair Trade, Sec. 67; *Vickery* v. *Walsh*, 19 Pick., 523–527; *Peabody* v. *Norfolk*, 98 Mass., 452–458; *Chadwick* v. *Covell*, 151 Mass., 190; *Salomon* v. *Hertz*, 40 N. J. Eq., 400; *Westervelt* v. *National Paper Co.*, 154 Ind., 673. *Thum Co.* v. *Tloczynski*, 114 Mich., 149. *Morrison* v. *Moat*, 21 L. J., Ch. N. S., 248. *Youatt* v. *Wingard*, 1 Jac. & W., 394.

"This is not a suit to enforce a specific performance of a contract for personal services, which, it is conceded, cannot be done. The injunction sought to restrain the appellant from violating his covenant and **from disclosing the secrets acquired by him while in the service of appellee under his contract of employment.** There is no adequate remedy at law for such violation."

The case of *Thum Co.* v. *Tloczynski*, 114 Mich., 149, cited and approved by the U. S. Court of Appeals in the *Harrison* case, is peculiarly applicable here. The defendant, Tloczynski, was employed by O. & W. Thum in their business of manufacturing sticky fly paper by a secret process known only to the Thums and their employees, to whom the secrets were necessarily communicated. The complainant, O. & W. Thum Co. was the successor to O. & W. Thum, who employed defendant. The complainant

sought to enjoin the defendant from using or disclosing to others the secrets, a knowledge of which he had acquired while in the employ of O. & W. Thum. There was a sharp conflict in the testimony as to whether or not there was an express agreement between O. & W. Thum and the defendant that the latter should not disclose these trade secrets. The court, however, found that whether or not there was an express agreement, there was, by virtue of the relations of the parties, an implied agreement that the defendant should not disclose these secrets.

In deciding the case the court said, (page 151):

"One cannot read all the testimony in the light of the facts and circumstances surrounding the conditions of the business at the commencement of defendant's employment, and its subsequent development and growth, without coming to the conclusion that the defendant and his employers regarded his relation to them as a confidential one and contemplated that he should not disclose or make improper use of the secrets of the business. The conclusion is irresistible that defendant would not have been employed and that information which was imparted to him would not have been conveyed, if it had been understood that he might sever his relations with his empolyers at any time and sell the valuable information which had been imparted to him whenever he could find a market."

Again, the court say, (page 157):

"But if it may be stated that the only agreement is an implied one growing out of the oral statements, taken in connection with the facts and circumstances surrounding the business and the parties and their acts, still, if it is clearly established by all that was said and done that the secrets confided to the defendant were not to be disclosed by him to others and were not to be used by him except when he was in the employment of those who imparted to him the secret, or their legal representatives, and that was one of the conditions of his employment, we do not think it would make any difference in the principle involved. The knowledge came to him in the course of a

confidential employment, relying upon his using the knowledge only for the benefit of the employers."

The authorities cited amply sustain the court's position. One of the authorities cited is *Eastman Kodak Co.* v. *Reichenbach*, 79 Hun., 183, wherein the court, after announcing the doctrine that "courts of equity will restrain a party from making a disclosure of secrets communicated to him in the course of a confidential employment, and it matters not in such case whether the secrets be secrets of trade, or secrets of title, or any other secrets of the parties important to his interest," says that "the same doctrine has obtained in this state for at least half a century and it has been enunciated by a line of decisions which, with a single exception, is unbroken."

In the case of *Westervelt et al.* v. *National Paper Co.*, 154 Ind., 673, also cited with approval in the *Harrison* case, supra, the complainant, National Paper Co. employed the defendant Taggart to complete an invention for making paper bags, upon which he, Taggart, had been working. Taggart entered complainant's employ, completed the invention and remained for some years in complainant's employ. The invention was not patented, such having been the understanding between the complainant and Taggart, but complainant was to retain and did retain the benefit of the invention by keeping same secret. After Taggart left complainant's employ he contracted with defendant, Westervelt, to enter his service for three years and to make the same machine for him, and Westervelt contracted with defendants Buescher M. Co. and Huston to do certain work upon those machines. Westervelt, Buescher M. Co. and Huston knew, when making their contracts with Taggart, of his relations to the complainant. Taggart and all the other defendants were enjoined from

making any use of the secrets which Taggart had disclosed and the other defendants were about to use.

The court, after reviewing many authorities, says: (pp. 678, 679):

"It is evident from the authorities cited that if a person employs another to work for him in a business in which he makes use of a secret process, or of machinery invented by himself, or by others for him, but the nature and particulars of which he desires to keep secret, **and of which desire on the part of the employer the employe has notice at the time of his employment, even if there is no express contract on the part of the employe not to divulge said secret process or machinery,** the law will imply a promise to keep the employer's secret thus entrusted to him; and any attempt on his part to use the secret process or machinery, or to construct the machinery for his own use as against the master, or to communicate said secret to others, or in any manner to aid others in using the same, or in constructing the machinery, will not only be a breach of his contract with his employer, but a breach of confidence and violation of duty which will be enjoined by a court of equity.

"It is clear from the allegations of the complainant, which are admitted to be true by the demurrer, that appellee, by the expenditure of money and time, has built up a successful business, and that said success is largely due to said complete machine for the pasting of the bottoms of the paper bags, the invention and discovery of Taggart. Said machine was a secret, and, under the facts alleged, even if no agreement was made, one would be implied that he was not to disclose the secret of the construction of the machine, or impart any information by which any one could construct such a machine. He occupied a confidential relation to appellee, and in such case the law raises an implied contract between them that the employe will not disclose any trade secret imparted to him, or discovered by him, in the course of his employment. A disclosure of such secrets thus acquired is not only a breach of contract on his part, but is a breach of trust which a court of equity will prevent."

Again the court says, on page 680:

"It is true that it is alleged that when Taggart was employed by appellee there were in existence machines which would so fold and paste one end of a paper tube as to form a complete paper bag; but it is also alleged that the construction of said machine was a secret not generally known to those engaged in the manufacture of paper bags, and not known to plaintiff, and that those owning such machines kept the same a secret. It is not alleged that appellee's machine for pasting the bottoms of said paper bags was like those used by other parties; on the contrary, it is expressly averred that 'there are no other machines like it;' nor does the mere fact that appellee's machine performed the same work as the machines referred to raise any presumption that it was the same. It appears from the complaint that said machines cannot be constructed except by the use of information furnished by Taggart in violation of his duty and agreement with appellee. As we have shown the divulging and use of such information can be enjoined."

In *Little* v. *Gallus et al.*, 38 N. Y. Supp., 487, the complainant was a maker of typewriter ribbons by means of secret processes and formulae. The defendants below entered his employ while they were minors, and remained in his employ until their majority, and until they were promoted to positions which required that they be informed, and they were informed, of these secret processes and formulae, and they knew that the same were preserved as secrets by their employer.

"They likewise understood that the plaintiff confided in them and permitted them to obtain complete knowledge of the different processes and formulae he was using in his business in reliance upon their fidelity as his confidential servants."

Yet the defendants left complainant's employ and associated themselves with other parties, organized the Rochester Ribbon and Carbon Company, and proceeded to manufacture typewriter ribbons of the same character and after

the same manner as those manufactured by the complainant.

The court said, pp. 489, 490:

"And that, notwithstanding the knowledge thus obtained, and in violation of the faith and confidence reposed in them, they surreptitiously made memoranda of these formulae, and are now using the same, as well as all the other knowledge obtained while in the plaintiff's service, to start and operate a rival establishment. The only question, therefore, to be determined, upon this state of facts, is whether or not they shall be permitted to carry out their intentions. It is contended by the plaintiff that his case is brought directly within the rule laid down in that of *Kodak Co.* v. *Reichenbach*, 79 Hun., 183, 29 N. Y. Supp., 1143, recently decided by the general term in the fifth department. And the defendants, while conceding that the law of the case is there correctly stated, insist that the facts do not warrant its application here.

"We find ourselves unable to concur in the view thus taken and which was carefully elaborated upon the argument by the learned counsel for the defendants. The facts of this case differ somewhat from those of the *Reichenbach* case, in that there was no written agreement entered into between these parties by which the employes undertook to give to their employers exclusive right in or control over any inventions discovered by or disclosed to the former; but we are unable to see how this strengthens the defendants' contention. In the case cited there happens to be an express contract, but nevertheless it is asserted, in the opinion of the court, and such is unquestionably the correct rule, that the law raises an implied contract that an employe who occupies a confidential relation towards his employer will not divulge any trade secrets imparted to him or discovered by him in the course of his employment; and we do not see why the defendants Gallus and Bostwick are not under just as strong an obligation to observe and keep sacred the trust reposed in them as they would be had they reduced the contract which the law implies to writing. Nor does the fact that they entered the plaintiff's service while minors, and at first performed duties comparatively unimportant in their character, relieve them from a faithful observance of their

obligation. Gallus, at least, was ultimately advanced to a position of great responsibility, and both of them had attained their majority before attempting to take improper advantage of the knowledge imparted to them while in the plaintiff's employ, and their present experiments are not in the direction of legitimate competition, but involve a breach of trust which we think the court should prevent. For these reasons we are of the opinion that the judgment appealed from should be reversed, and that a new trial should be granted."

In *Eastman Kodak Co.* v. *Reichenbach*, 79 Hun., 183, the plaintiff was the owner of valuable trade secrets, which were either discovered by one or more of the defendants, or necessarily disclosed to them while occupying a confidential relation toward the plaintiff. A bill was filed to restrain the defendants from using or in any manner disclosing or imparting to anyone any secret or information as to any processes or formulae used by the plaintiff in its business of manufacturing photographic supplies, and especially in its business of making emulsion and film, which had been imparted to or acquired or discovered by them while in the employ of the plaintiff or its predecessors in business. The defendants were in the employ of the plaintiff, holding responsible and lucrative positions. They were men of education, skilled and experienced in their respective departments, and their services were of great value to the plaintiff, in whose interests, it is claimed, they or two of them, Reichenbach and Passavant, had made certain discoveries and inventions which were of great value, and which were unknown to the world at large. While thus employed by the plaintiff, the defendants organized a new company, with a large capital, for the purpose of engaging in the same business as that carried on by the plaintiff, in which business it was proposed to use those discoveries and in-

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ventions. The court enjoined the defendants, as requested, and the latter appealed.

The court, after reviewing many authorities, said pp. 193, 194:

"By a careful reading of the various decisions upon this subject, it will be seen that some are made to depend upon a breach of an express contract between the parties, while others proceed upon the theory that where a confidential relation exists between two or more parties engaged in a business venture, the law raises an implied contract between them that the employe will not divulge any trade secrets imparted to him or discovered by him in the course of his employment, and that a disclosure of such secrets thus acquired is a breach of trust and a violation of good morals, to prevent which a court of equity should intervene.

* * * * *

"But, without multiplying citations or prolonging consideration of the legal aspect of this case, it may be said by way of conclusion that the principle contended for by the plaintiff is not only abundantly supported by authority, but is likewise founded on good common sense, and is peculiarly applicable to the case in hand. Here is a party which, by the expenditure of vast sums of money and the exercise of much skill and ingenuity, has built up a large and prosperous business, the capital of which consists largely in certain inventions and discoveries made by its officers, servants and agents. The world at large knows nothing of these inventions and discoveries, because they are locked within the brain of those who conceive them. The defendants, who have been largely instrumental in perfecting them, while under both an express and implied contract to give the plaintiff the benefit of their inventive genius, propose now to disregard their legal and moral obligations by creating a new establishment where these inventions and discoveries may be employed to plaintiff's serious injury. This is not legitimate competition, which it is always the policy of the law to foster and encourage, but it is *contra bonos mores*, and constitutes a breach of trust which a court of law—and much more a court of equity—should not

tolerate. It follows, therefore, that the plaintiff is entitled to the relief sought by this action, certainly as against the defendants, Reichenbach and Passavant; and, as the defendant Milburn has allowed himself to engage in an illegitimate enterprise, with knowledge of or the means of knowing what its operation involves, I can see no good reason why he should not be subjected to the same restraining process as his co-defendants. Judgment is accordingly directed against all three defendants, with costs of the action."

In *Morrison* v. *Moat*, 21 Law Journal, Ch. N. S., Justice Lord Cranworth delivered the opinion of the court, which begins as follows:

"The principles that were argued in this case are principles really not to be called in controversy. There is no doubt whatever that where a party who has a secret in a trade employs persons under contract, express or implied, or under duty express or implied, those persons cannot gain the knowledge of that secret, and then set it up against their employer. That is perfectly clear, and the only doubt there is in the case is on the question of fact here, as was put by Vice Chancellor Turner in giving his judgment."

In 1 High on Injunctions, Sec. 19, the author says:

"The disclosure of secrets which have come to one's knowledge during the course of a confidential employment will be restrained by injunction. And where the confidential relationship has existed between the parties out of which one of the parties has derived information or secrets concerning the other, equity fastens an obligation upon his conscience not to divulge such knowledge, and enforces the obligation, when necessary, by injunction. Thus persons who in the capacity of attorneys, agents or any other confidential relations, have obtained the custody of the books and documents of their principals, or have come into th possession of secrets relating to their affairs, will be restrained from making them public."

In 1 Story's Equity Jurisprudence, Sec. 323, the author says:

"On the whole the doctrine may be generally stated that

wherever confidence is reposed, and one party has it in his power in a secret manner for his own advantage to sacrifice those interests which he is bound to protect, he will not be permitted to hold any such advantage."

In 2 Story's Equity Jurisprudence, Sec. 952, the author says:

"Upon similar ground of irreparable mischief the court of equity will restrain a party from making a disclosure of secrets communicated to him in the course of a confidential employment. And it matters not in such case whether the secrets be secrets of trade or secrets of title, or any other secrets of the party important to his interests."

The following authorities clearly show the rights of our complainant as against defendants Quetsch, Siebert and Continental Colortype Company, all of whom propose to use and are using trade secrets, the property of complainant, and acquired by said defendants through a gross breach of trust.

In *Chadwick* v. *Covell*, 151 Mass., 190, Mr. Justice Holmes, in delivering the opinion of the court, said:

"So far as the right to manufacture and sell the medicines goes, the plaintiff's case may be disposed of in a few words. Dr. Spencer had no exclusive right to the use of his formulas. **His only right was to prevent any one from obtaining or using them through a breach of trust or contract.** Any one who came honestly to the knowledge of them could use them without Dr. Spencer's permission and against his will. (*Peabody* v. *Norfolk*, 98 Mass., 452–458; *Morrison* v. *Moat*, 9 Hare, 241, 263; *Williams* v. *Williams*, 3 Meriv., 157."

In *Peabody* v. *Norfolk*, 98 Mass., 452, Peabody built a mill and furnished it with machinery secretly invented by himself for making gunny cloth by a secret process, also of his invention, and made a contract with Norfolk, who had already acquired a confidential knowledge of those inventions and secrets while engaged in Peabody's service, which contract provided that Peabody was to serve as engineer

of the mill and not to give anybody information about the machinery, and by all means in his power to prevent others from obtaining information in regard to it.

Norfolk left Peabody's employ and made an arrangement with a third party to communicate to him the secrets and with him to use the same for their own benefit. The third party had knowledge of the circumstances under which Norfolk acquired the secret information.

The court enjoined both Norfolk and the third party from making any use of the information thus obtained and communicated by Norfolk. Mr. Justice Gray, in delivering the opinion of the court, said, page 458:

"If a man invents or discovers and keeps secret a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public or as against those who in good faith acquire a knowledge of it; but he has a property in it which a court of chancery will protect against one who, in violation of contract and breach of confidence, undertakes to apply to his own use or to disclose it to other persons. Jurisdiction in equity to interfere by injunction to prevent such a breach of trust, when the injury would be irreparable and the remedy at law inadequate, is well established by authority."

See, also,

Solomon v. *Hertz*, 40 N. J. Eq., 400.

In *Yovatt* v. *Winyard*, 1 Jacob & Walker, 394, the plaintiff, who was the proprietor of the medicines, had employed the defendant for some time as his assistant or journeyman, under an agreement by which he was to have a salary and to be instructed in the general knowledge of the business, but was not to be taught the mode of composing the medicines. He some time after left the plaintiff and entered into business for himself, and the plaintiff had latterly discovered that he had, while in his service, surreptitiously

got access to his books and recipes, and copied them, and was now selling the medicines with printed papers for administering them, which were almost literal copies of those composed by the plaintiff. The defendant had afterwards offered for small salary to agree not to divulge the recipes. The Lord Chancellor granted the injunction upon the ground of there having been a breach of trust and confidence.

In Hopkins, Unfair Trade, Sec. 67, the author says:

"A secret in trade is fully recognized as property, in equity, the disclosure of which will be restrained by injunction.

"A contract in reference to such a secret cannot be in restraint of trade, 'because the public has no right in the secret,' * * * But it is settled that a secret art is a legal subject of property, and its owner has a vested right to the secrecy of all those who occupy a fiduciary relationship to his business, so that no one who obtains knowledge of the secret by fraud or unfair means will be permitted to avail himself of the fruits of his fraud, by disclosing the secret, or manufacturing under it."

In view of the specific allegations of the bill, under oath, as to the secrets acquired by the defendants while in complainant's employ, we respectfully urge that the court below was in error in dismissing the bill for want of jurisdiction.

III.

The Federal court, clearly having jurisdiction to grant the relief asked as to the trade and business secrets communicated to the defendants since February, 1902, even in the absence of any novation, may adjudicate upon the other matters inseparably connected therewith, namely: the secrets communicated to or known by said defendants prior to said date, both those acquired by said defendants by virtue of their confidental positions with complainant's constituent companies, and those not so acquired, but which the defendants were bound to disclose to no one other than complainant; for the right of complainant to relief as to all these matters constitutes but a single cause of action.

In the case of *Evans* v. *Durango Land & Coal Co.*, decided by the United States Circuit Court of Appeals for the Eighth Circuit in 1897, and reported in the 80th Federal Reporter, at page 433, the plaintiffs sued the defendants at law to recover the value of certain coal alleged to have been mined from certain land in Colorado between the years of 1885 and 1895. The suit was begun in the state court and removed by the defendants to the Federal court, where a motion to remand was overruled on the ground that the construction of an act of Congress was involved. The complaint showed that the plaintiff, Evans, filed his declaratory statement in 1880. That one of the defendants afterwards made a pretended entry of the lands in the United States Land Office at Leadville, Colorado, without notice to the plaintiff Evans. That thereafter there was a contest between the plaintiffs and the defendants at the United States Land Office at Gunnison, Colorado, as to who was entitled to the land. That the registrar and receiver of the United States

Land Office at Gunnison held with the plaintiffs; that an appeal from such decision was taken to the commissioner of the general land office and to the secretary of the interior and that the decision of the registrar and receiver was affirmed by each of said officers. That pursuant to such decision the plaintiff Evans entered and paid for the lands in 1894, and a patent was subsequently issued to Evans for the land.

The complaint asked a recovery for the coal mined both before and after December, 1894, the date that plaintiff was permitted to enter and pay for the land. The question whether plaintiff was entitled to recover for coal mined before December, 1894, involved the construction of an act of Congress; the question whether plaintiff was entitled to recover for coal mined after December, 1894, did not involve a construction of an act of Congress. The Circuit Court, after overruling the motion to remand to the state court, sustained a demurrer to the complaint and dismissed the suit. On appeal by the plaintiffs to the Circuit Court of Appeals, both rulings of the Circuit Court were questioned, the one refusing to remand and the one sustaining the demurrer. The Court of Appeals sustained the lower court in refusing to remand, but overruled the lower court in sustaning the demurrer. The Court of Appeals held that the complaint showed no right of recovery for coal mined prior to December, 1894, but did show a right to recover for coal mined and removed by the defendants subsequent to that date; and though the Court of Appeals plainly stated that the question of plaintiff's right to recover for coal mined after December, 1894, involved no Federal question, yet the court held that the Federal court had jurisdiction to pass upon the cause because the trespasses before and after December, 1894, constituted one cause of

action, and the Federal court, having jurisdiction to determine the rights of the parties prior to that date, had jurisdiction to consider and pass upon the whole case. The court said, page 437:

"Even if it happens, therefore, that the paintiff will only be able to show a right to recover for such coal as was mined and removed subsequent to the entry of December 31, 1894, yet that result will not deprive the Federal court of its right to enter a judgment for the value of the coal so mined and removed. The cause of action stated in the complaint is clearly single and indivisible, and the plaintiffs have so stated their cause of action as to show that an adjudication upon their claim as presented necessarily involves the construction of Federal statutes. It results from these facts that the trial court by the proceedings for removal, lawfully acquired jurisdiction of the entire cause; that is to say, the right to enter a judgment for any portion of the demand if the plaintiffs show themselves entitled to recover and that jurisdiction could not be affected by subsequent events."

Again the court say: (page 441):

"It may be that facts can be shown which will excuse Evans' apparent want of diligence in perfecting his title, but we are constrained to hold that the plaintiffs' complaint does not contain such a showing, nor any averment to justify us in holding that his patent should be given effect by relation as of a date anterior to December 31, 1894. Under the averments of the complaint as heretofore stated, there would seem to be a right to recover for such coal as the defendant company may have mined and removed from the land subsequent to the latter date, and for that reason we think that the demurrer to the complaint should have been overruled. The judgment of the Circuit Court is accordingly reversed and the cause is remanded for a new trial."

In the case at bar, the complainant's exclusive right as against these defendants to the secrets communicated to the defendants employed by it after February last, and to those communicated to said defendants prior to that date or known to the defendants prior to that date, may cer-

tainly be considered one cause of action, as single and indivisible as the plaintiff's cause of action in the Evans case to the coal mined and taken away before and after December, 1894. Our complaint is based upon a gross fraud of these defendants which we seek to restrain. The fraudulent acts were all committed since the complainant came into existence; and we respectfully submit, those fraudulent acts are not susceptible of segregation.

Opposing counsel has insisted, and doubtless will here insist, that the purpose of the bill is purely to enforce the negative covenants in the written contracts. We contest that statement. As to the secrets confided to these defendants by the complainant itself, it cannot be denied that complainant is entitled to the relief asked on the ground of restraining a breach of trust. *That the granting of such relief would incidentally result in the enforcement of those negative covenants cannot deprive the court of its jurisdiction.*

Is the defendants' breach of trust as shown in this bill limited to their disclosure of secrets learned after the organization of complainant? Under the facts disclosed here, could the defendants, after having remained in this business after complainant's organization under the circumstances shown, with honesty and fairness proceed to the organization of a rival business having for its capital secrets obtained by these defendants from complainant's constituent companies under the written contracts not to disclose them? Is it not true that all the secrets relating to this business and known to these defendants, or any of them, they cannot, with any honesty or fairness, disclose to anyone or use to the detriment of complainant? They bound themselves not to do so, to concerns whose businesses

have been merged in that of complainant's with the knowledge and assent of defendants, and those concerns have now no separate existence. The defendants have no right to make any use of those secrets for any purpose.

In the case now before this court, leaving entirely out of consideration the allegations respecting novation, the allegations of the bill as to the secrets of the complainant acquired directly from it by these defendants, clearly give the Federal court jurisdiction of this case.

As to this proposition we can find no division or dispute in the authorities. The Federal and the state courts are a unit upon this question. Having acquired jurisdiction, was not the Federal court clothed with power to consider and determine the whole cause of action of this complainant against these defendants disclosed by the bill? We respectfully submit that the *Evans* case last above cited clearly answers this question in the affirmative.

In the case of *Harrison* v. *Glucose Sugar Refining Company*, decided by the Circuit Court of Appeals for the Seventh Circuit, and referred to under another head of our argument, the court based its right to restrain defendant from remaining in the employ of his new master upon the ground that such employment would necessarily involve his disclosing to his new employer all the secrets regarding corn products that he possessed, *both those which he learned by virtue of his confidential employment with the complainant, as well as those which he knew before.* And the court said that his duty to his new master would require him to disclose all those secrets, while his duty to his old master would require him to not disclose the secrets acquired from the latter.

So in this case, the duty of these defendants, former employees of complainant, to their new master requires them

to disclose all the information regarding the colortype process of which they are possessed. Their duty to the complainant requires them to conceal from their new master not only the secrets known to them prior to the organization of the complainant, whether obtained from complainant's constituent companies or not, but also the secret information acquired directly from the complainant while they were in its employ in a confidential capacity under an unmistakable understanding that all such imformation should be kept secret. The right of the Federal court to enjoin defendants from disclosing this last acquired information is beyond dispute; their duty not to disclose it is wholly inconsistent with their present employment.

Respectfully submitted,

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